Future Trends:

Creating New Opportunities in a Changing World

GAMA Foundation
Strategies for Growth

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GAMA International
Growth through sharing

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Creating New Opportunities in a Changing World

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Preface

Welcome to a window on the future of our industry.

To help GAMA members understand the dynamic trends occurring within and outside of the insurance and financial services industry, the GAMA Foundation contracted with the Institute for Alternative Futures (IAF) to conduct this study. IAF used more than 100 text- or internet-based resources for background information and conducted a series of in-depth interviews with current GAMA members, predominantly "next generation" members.

The study's overriding finding was that the operating environment for managers in the insurance and financial services industry is changing rapidly. Workforce and demographic changes are shifting the profile of our industry's customers, the financial advisors who sell to them and the managers who develop those advisors. New customers with new needs are entering the market for financial services at the same time that the industry itself is transforming. This white paper looks at these changes in the operating environment and provides implications and strategies for GAMA members.

In a typical organization, awareness of future trends and their long-term implications is often quite low. Likewise, readiness to maneuver, respond and adapt can also be underdeveloped. Visionary leaders and managers may anticipate what lies ahead. But many field leaders and entrepreneurs lack the time or perspective to identify trends and emerging issues and their possible ramifications.

In their book, *The Influentials,* Ed Keller and Jon Berry describe future-minded individuals as those who use multiple sources of information, are voracious readers and doers, have wide networks, practice continuous improvement, believe in sharing what they know and trust their instincts and personal experiences.

The goal of this future-oriented white paper is to help GAMA members become future-minded individuals and to build the foresight they will need for strategic thinking.

Customer and Workforce Demographics: This section looks at the aging of the large Baby Boomer Generation, as well as the characteristics of the younger workers of Generation X and the Millennials. This section also looks at the geographic shift in U.S. population from the East to the South and West, as well as the impact of a more multiethnic population.

Industry Forces: This section looks at the changes under way in the financial services sector. It looks at convergence between insurance and other financial services, as well as the increasing importance of consultative services, the changing role of the insurance manufacturer and the importance of ethics in the industry.

Monitoring Technology Advance: This section explores the impact of new technologies on the development and distribution of insurance and financial services. It looks at the combination of data-mining and digital-mapping technologies to create powerful new tools for financial advisors. It also looks at new interactive technologies for communication and collaboration.

New Directions in Professional Training and Development: This section of the paper explores the changes in professional education in the corporate sector. It also explores the impact of digital learning technologies and the importance of lifelong learning.

Customer and Workforce Demographics

Boomer Retirement: A Tale of Two Markets

The retirement of the Baby Boomers will create a very different customer base and workforce for the insurance and financial services industry. Their story will be the story of two markets. One market will be populated by wealthy, active Baby Boomers with a need for financial services. The other market will be populated by active Baby Boomers who rely on Social Security and part-time work to sustain them in retirement. Both groups will be vital to the future of the insurance and financial services industry.

There are two groups of Baby Boomers. The first of the Baby Boomers were born between 1946 and 1954; the second group of Boomers was born between 1955 and 1964.

The first of the Baby Boomers will turn 65 in 2011. By 2021, the percentage of Americans of retirement age will double to 16.9 percent of the population.[1] Economic growth and higher education levels over the last 25 years have dramatically improved the incomes of Baby Boomers as a whole. However, not all of these new Baby Boomers will be able to retire. At midlife, the Boomer Generation has the highest wage inequality of any recent generation. Increasing inequality in income distribution starting in the 1980s and continuing through today will create two very different groups of future retirees.[2]

Those who were in the top income groups are likely to have access to resources in retirement not seen by previous generations, while their less fortunate colleagues will have been mostly locked out of the gains of previous years. Also, since income inequality continued to increase from the 1980s onward, the disparities faced by retiring Boomers will continue to widen as Boomers who spent their peak earning years in the 1980s and 1990s retire.[3] This gap is particularly acute for younger Baby Boomers: one in 10 late Boomers lives in poverty at middle age.[4]

The wealth and circumstances for retirement will vary significantly between early and late Boomers. The early Boomers will have an easier time meeting their retirement needs. They will be less exposed to rises in the minimum age for Social Security and have better access to traditional pension plans. However, 35 percent of the early Boomer generation is in danger of not having enough savings to continue their standard of living in retirement.

The late Boomers will face greater retirement pressures than their colleagues. They will be impacted by age extensions and possible future cuts in Social Security, and they will have less access to traditional pensions.[5] By 2013, close to 80 percent of retirement savings will be in defined contribution retirement plans rather than traditional pension plans.[6] Late Boomers are also more exposed to a decline in the value of their assets before retirement and potential inflation in the cost of products and services in demand by the elderly.

The average Baby Boomer will have significant assets to draw on in retirement. The net worth of the average Baby Boomer is nearly $278,000, excluding pensions and Social Security.[7] However, roughly 25 percent of Baby Boomers may have a net worth of less than $50,000 at retirement. At the other end of the spectrum, perhaps as many as 25 percent of Boomers may have a net worth of more than $1 million at age 65.[8]

Higher education levels among Boomers will correlate with a greater tolerance for risk taking and for managing their own finances in retirement. Baby Boomers are more educated than previous generations of retirees. They are about one-and-a-half times more likely than current retirees to be college educated and about half as likely to be high school dropouts.[9] However, later Baby Boomers did not achieve the same level of education as their earlier colleagues. Only about one in four late Boomers has graduated from college.[10]

Women retirees will have a greater role in managing their own finances in retirement and will be a significant component of the over-65 workforce. The participation of women in the workforce jumped more than 98 percent in the years Boomers were in the workforce, and the biggest gain in incomes were seen by married women. Dual-earner couples increased five-fold from 1940 to 1998, while the overall number of married couples in the Baby Boomer generation declined. However, female Baby Boomers had lower average incomes and labor participation rates compared to their male counterparts, indicating there will be a significant number of single female Boomers without adequate resources for retirement.[11] Many of these single female Boomers will remain in the workforce past 65.

Racial and ethnic minorities will be affected in retirement the most from the rise in inequality seen during the peak Boomer years. The Boomers are a very diverse generation: approximately one in four is a racial or ethnic minority.[12] For a variety of social and cultural reasons, minorities generally have lower savings for retirement and are more conservative investors even when compared with whites of similar incomes. White Baby Boomers have more than seven times the net worth of African-Americans and three times the net worth of Hispanic Boomers.[13] African-Americans with similar income levels still show disparities in retirement savings. High-income African-Americans have $95,000 saved for retirement, compared to $168,000 for high-income whites.[14] African-Americans are less likely to be invested in the stock market and generally prefer conservative investment vehicles, such as insurance and real estate. However, they are more likely to have traditional pensions.[15]

Higher-Income Boomers

- Most are college educated
- Most worked in white-collar industries
- More likely to be early Boomers than late Boomers
- Likely to be part of dual-income married families
- Women are likely to have a significant say in financial affairs
- Experienced in managing their own investments
- Willing to take on more investment risk than previous retirees
- Active in volunteer and professional organizations

Compounding the problem are changes in Social Security and Medicare that will increase the normal retirement age. Amendments to the Social Security Act have already put an escalator clause in the program that increases the normal retirement age to 66 for those born from 1943 to 1954. Those late Boomers born after 1954 will see the retirement age rise by two months a year until the retirement age hits 67.[16] To remain solvent at current levels, the federal government will need to make politically painful changes, such as raising the retirement age, reducing benefits and fully taxing benefits. Over the next 10 to 15 years, it is likely that the retirement age will be raised to 70 and that benefits will be fully taxed. It is also possible that the federal government will index future benefits to inflation rather than to increases in wages, leading to a subtle decrease in the purchasing power of Social Security over time.

Medicare faces an even larger shortfall and will have to trim benefits or increase the age of eligibility to remain solvent. Pushing the eligibility age for Medicare past the current age of 65 would have an immediate impact on the workforce. Most workers will need to remain in the workforce past age 65 since buying health insurance coverage in the private, nongroup market is prohibitively expensive. Since these changes are politically painful, they are unlikely to be taken until retiring Boomers have already placed a strain on the system. Such a delay will make the necessary changes much more painful and is much more likely to affect the late Boomers than their earlier counterparts.

Baby Boomers have challenged and changed traditional social roles throughout their lives. One thing that will unite both markets of Baby Boomers will be their willingness to change the traditional definitions of retirement and their possession of the good health needed to live an active life well past their 60s. The affluent market of Boomers will look to stay physically and mentally active through travel, higher education, volunteer activities and political activism. Many will choose to stay active in their professions, either as employees or as volunteers involved with professional associations.

The less-affluent market of Boomers will challenge the traditional structure of work by extending their careers past the traditional retirement age of 65 or starting alternative careers that provide both new experiences and needed income. Boomers who stay longer in their current careers or pursue new careers will need training to update their skills. In pursuing alternative work environments, they are likely to press many industries to find new ways of benefiting from their experience through more flexible work roles. This will include much more use of part-time work, flex-time scheduling and contract or commission work.

Working With and Selling to the Two Markets

The two markets of Baby Boomers will continue to be important for the insurance and financial services industry. The affluent Boomers will gravitate toward products that provide steady sources of income, but still allow them to control their own investments. The less-affluent Boomers will need new products to help insure them against the risks of old age and to allow them to continue to work past age 65. They will also remain much more involved in the workforce, creating a new source of financial advisors and support staff.

Working with …

Boomers of all types are likely to remain much more connected to the workforce after the age of 65 than any previous generation. More affluent Boomers are likely to remain active in their professions by extending their working lives through alternate modes of work. They are also more likely to stay involved in their professions through volunteering for professional organizations, writing for trade publications and mentoring. Firms can capitalize on this trend by providing avenues for current managers and advisors to stay involved in the profession.

Many Boomers, either by choice or by financial need, will continue to work on a part-time or contract basis to supplement their income from Social Security. It is a fair bet that most financial services workers will remain working in the field past age 65: the new retirement age is likely to mirror raises in the normal retirement age for Social Security and Medicare. While these workers will want to work longer to receive full Social Security and Medicare benefits, many of the more financially secure will still consider 65 their goal for retirement. These workers will look for alternate models of work that allow them to delay Social Security withdrawals, maintain their health insurance and provide some level of work flexibility for the years between age 65 and the new normal retirement age.

Lower-Income Boomers

- Less likely to be college educated
- More likely to be a late Boomer than an early Boomer
- More likely to be a minority
- Less likely to have a pension
- More risk averse
- More likely to be unmarried and female
- More likely to continue working after age 65

Some Boomers will be attracted to the industry from other careers. They will be most attracted to opportunities in part-time work in administrative support, customer service and sales. Advances in information and communication technology will increase the ability of workers to connect with potential clients from remote locations, which will increase the number of clients a financial advisor can manage. As a result, the number of part-time workers is likely to grow significantly past the current 8 percent of the workforce.[17]

These new groups of workers will dramatically change the workplace. Older semiretired workers will have a wealth of life and work experience to draw on, but will have radically different expectations about the workplace. They will want and expect clear boundaries between work and personal time. Second-career workers from other industries might not have experience in financial services but will have useful skills and knowledge from their previous careers. Field leaders will need to structure their offices to retain older, semiretired workers and to integrate second-career workers into their workforce. If done successfully, older, semiretired workers and second-career workers can be a real asset to an organization.

Selling to …

Affluent Boomers will need a range of insurance and financial services products for income and to reduce risk. Annuities will continue to grow as retirees seek steady and stable income streams in retirement to supplement declines in Social Security and pensions. Boomers will reduce their risk profiles and seek additional options for tax-deferred investing with variable annuities. Investment-savvy Boomers will be drawn to equity-indexed annuities. Because these buyers will be much more sophisticated investors, they will look for indexes other than the S&P 500 on which to base their annuities. These indexes are much more likely to include foreign and emerging market issues, commodities and small- and mid-capitalization stocks.

Affluent Boomers will also continue to invest in retirement and will be drawn to insurance, financial services companies or banks that offer comprehensive financial and insurance solutions. They will continue to be invested in mutual funds and stocks. Exchange traded funds (ETFs) and new mutual funds that mimic hedge fund strategies will also be popular. In response to high demand, no fewer than 136 ETFs were launched in the first half of 2006, and Morgan Stanley predicts they will have $2 trillion of assets by 2011.[18] Both insurance companies and banks will offer a complete range of products and services in order to retain customers. For large accounts, these institutions will offer a set number of free trades a year in hopes of retaining customers and earning money on retail banking, credit cards, insurance products and mutual funds.

Both affluent and less affluent Boomers will be drawn to alternative insurance products and investments to hedge against the risk of rising health costs and longer working lives. Late Boomers will shift from traditional health insurance offered by an employer to health savings accounts. Boomers past age 65 will look to supplement Medicare through other insurance products. Long-term care insurance will be a growth market. New wraparound insurance products will be developed to cover new technologies or services not covered under traditional insurance or Medicare.

Other Significant Trends

Restructuring the Firm to Accommodate Diverse Generations

We are experiencing an unprecedented convergence of four distinct generations in the modern American workplace and family: The Silent/Veteran Generation, the Baby Boomers, Generation X and the Millennials. This convergence is made possible by the prolonged transition to retirement and longer lives of the Silent/Veteran and Baby Boomer generations. Field leaders will need to restructure their offices to retain older, semiretired workers and to integrate second-career workers into their workforce, as well as to accommodate later generations, particularly their technology appetites.

As the authors of the book *Generations at Work* concluded, all organizations as well as individuals will need to be much better at working together in spite of their differences to benefit from their diverse skills and experiences. Many experts see a stalled, if not irrelevant, future for businesses and organizations that do not adequately adapt to and embrace diversity. Therefore, no skilled worker should go unwelcomed or underutilized; no organization can afford to squander any available talent. Field leaders should consider retaining retired associates as mentors or part-time salespeople.

Field leaders have to understand and address generational shifts, particularly as the Generation X and Millennial cohorts enter and rise in the insurance and financial services industry. The work of historians William Strauss and Neil Howe and others have explored the personality and work characteristics of these different generations. For instance, members of the Silent/Veteran generation are often known for their integrity, self-sacrifice and strong work ethic; the Boomers for their drive and idealism, but also self-centeredness. Gen Xers are often portrayed as realists striving for work-life balance, while Millennials are seen as confident, technologically adroit, not burdened with gender roles or stereotypes and preferring to work collaboratively in teams.

Generation Size	
Silent/Veterans	77 million
Baby Boomers	78 million
Generation X	46 million
Millennials	80 million

Gen X Enters the Corner Office

As Baby Boomers move into retirement or semiretirement, their places in management will be filled with the members of Generation X. Gen Xers, born between 1965 and 1979, are much more pragmatic than their predecessors and will bring that strength to their management duties. They are likely to focus on improving processes inside the office and to develop new and more efficient ways of conducting business. They are comfortable delegating authority, promoting transparency in the office and coming to decisions quickly. They are much more concerned with balancing work and personal lives than previous generations and are not afraid to switch employers if they feel shortchanged. Because they are such a small generation, the most talented members among them, especially those with prior experience, will be in very high demand.

The Millennial Generation Joins the Ranks

The Millennial Generation, those born between 1979 and 1994, will be joining the workplace in increasing numbers over the next 10 years. Some are already in your pipeline. This generation rivals the Baby Boomers in size, but is very different in composition and outlook. The Millennial Generation is nearly twice the size of its Gen X predecessors. The members of this generation are diverse, with one in three affiliated with a racial or ethnic minority, one in four coming from a single-family home and three in four having a working mother. They are digital natives used to continuously using information and communication technology to keep in contact with friends and colleagues. Their first stop is the Web for all inquiries, from learning about a new product to purchasing goods and services, applying for a job or seeking new information. They are also more involved in volunteer and community service activities, although it is too early to tell if this will continue through their working lives.

The Changing White-Collar Workforce

Demographic changes in the United States will mean that the white-collar workforce will be much more diverse. Advances in communication technology will allow many people to work from home offices, while outsourcing of white-collar jobs is likely to continue as communication technology and the education levels of workers in India and China improve. Automation will also remove the need for many white-collar jobs. These changes are likely to have a large impact in the health and auto insurance markets and less impact on life insurance products because of their long duration, complexity and the need to maintain strong personal relationships with clients. The most successful professions will be those that combine a high level of specialized knowledge with the “soft” skills of emotional intelligence and facilitation.

The United States Shifts South by Southwest

Growth in the United States over the next 15 years will be concentrated in the South and West, with the largest growth in the Southwest. The fastest-growing states over the next 15 years are projected to be Nevada, Arizona, Florida, Texas, Utah, Idaho, Georgia and North Carolina.[19] These states are all seeing rapid growth from immigrants and transplants from states with higher living costs. Many of these states are also retirement hot spots and will see an increase in retiring Boomers seeking sun and escape from the high living costs in the Northeast and California. These dynamic states will continue to evolve as they integrate new immigrants and grow economically.

Multiethnic America

The racial and ethnic workforce will change over the next 15 years. By 2015, 37 percent of the population will be a racial or ethnic minority.[20] Most of this increase will be new immigrants or the children of current immigrants. Mexicans make up by far the largest group of current and future immigrants: roughly 28 percent of the foreign-born population is Mexican. Other large communities include Indians, Filipinos, Chinese, Cubans and El Salvadorans. However, none of these communities make up more than 4 percent of the foreign-born population.[21] The states with the highest percentages of foreign born include both eastern and western states. California, New York, New Jersey, Florida and Nevada are the five states with the highest percentage of foreign-born residents. However, southern states have seen the fastest growth of this population in the last five years. Seven of the 10 states with the fastest-growing foreign-born populations are southern.[22]

Customer and Workforce Demographics: Implications for Field Leaders	
Field leaders will need continued education in alternative types of insurance, financial services and marketing strategies.	Churn in the global workforce is likely to be significant as white-collar jobs will be created and eliminated at a faster pace.
Field leaders will want to develop strategies to identify active members of the profession nearing retirement and retain them as mentors or part-time workers.	There will be significant flows of workers from areas of financial services and insurance most affected by outsourcing to those that are not.
Gen X members will demand transparency and more professional development services.	Boomers are likely to remain active in the profession past retirement.
Advisors will be more diverse in both makeup and outlook.	New products and sales methods will be needed to reach a larger and more diverse group of consumers.
Economic growth in southern and western states will mean better markets for insurance and financial services there. These regional shifts might indicate a shift in the demand for different types of products.	The insurance and financial services industry workforce will change to include more racial and ethnic minorities. Customer support employees and financial advisors will need to be proficient in foreign languages, especially Spanish.
Changing demographics in the United States will bring a variety of languages, lifestyles, cultures and values to both the workplace and the marketplace. Field leaders should make deliberate efforts to increase diversity in their teams and their marketing efforts.	Some back-office operations will be handled overseas, increasing the importance of thinking globally. Many working Boomers will need training on new products, customer demographics and technology.

Insurance Representatives Will Sell Their Consultation Services Rather Than Products

As technology and convergence push insurance and financial services agencies into the "care economy," insurance advisors will increasingly find themselves in the same space as financial planners. Indeed, these fields are already merging. The role of managers will continue to change with this increasing professionalism. As the diversifications brought about by convergence become the norm, the vast majority of future field leaders will be certified to sell both risk management and wealth creation products and will need to shepherd their advisors through their own series of certifications. Managerial responsibility will increasingly be the result of not only experience, but also professional development and expansion.

The financial services industry is changing rapidly. The career of typical insurance representatives will shift even more toward the consultative support of their clients. Futurist Ian Pearson has defined a general trend in the West toward what he has called the "care economy." [23] By 2020, most physical labor will be automated and most of the intellectual work will be done by sophisticated computer programs. The strongest jobs in this context will be those that require the "soft" skills of emotional intelligence and facilitation. Rather than acting as an information source, the representative's primary role will be advisory. The most successful insurance advisors in this environment will be those who can partner with their clients to educate them and provide support during the decision-making process.

At its core, the industry is a perfect fit for such an economic environment, dealing as it does with complex and emotional issues. Like financial planners, the insurance advisor of the future will attract customers on the basis of his reputation as a counselor. The deregulated product offerings of both insurance advisors and financial planners have already begun to overlap. This trend gives a key clue about the fate of the industry. Increasingly, insurance advisors will find themselves in competition with full-service financial planners.

Financial planners are already the biggest distributors of insurance products within banks. It can be expected that the trend will increase, as more financial planners obtain licensing for insurance sales. Likewise, as the career path of insurance-based advisors becomes more consultative, there will be an increasing premium placed on the breadth of credentials and experience brought to this consulting. This will represent a substantial incentive for insurance-based advisors to expand into partnerships with financial planners and into full-service financial planning.

In the future, field leaders will oversee a field force possessing increasing accomplishment and professionalism. As the industry moves further away from its sales roots and more fully embraces diverse financial consultation, the qualities that distinguish field leaders will continue to evolve. The next-generation insurance advisor will require a next-generation field manager. Managing advisors with a diversity of financial certifications requires managers who hold a substantial breadth of credentials of their own. In more and more companies, knowledge of financial planning as a whole will be a key prerequisite for promotion. Classic management, a controlling process, will tend to give way to coaching, a cooperative process. In a sense, field managers will take a consultative role relative to their advisors, mirroring the importance of consultation as a whole.

There will be an increased transition from the vestiges of the traditional "territory management" model for sales toward a "strategic management" framework. As this takes place, these comprehensive agencies will gravitate further toward a professional partnership structure similar to that of attorneys and traditional wealth-management firms. Recruiting is likely to put a stronger emphasis on education and versatility.

Both advisors and field managers will need to be more entrepreneurial. They will be expected to promote their own individual expertise as a method of attracting business to their agencies. Top performers already tend to embrace this approach. In the future, however, it is likely that it will be expected and that field managers will need to help their advisors become rainmakers rather than salespeople. Because customer perceptions of consultants are more complex than perceptions of salespeople, strategic positioning will become important, and it will be necessary for next-generation advisors to manage their image more carefully. Field managers will be called upon to support this process.

The trend toward skill diversification is reinforced by shifting retention figures. In the table below are statistics supplied by LIMRA on retention. The statistics indicate that new-advisor hires are marginally increasing for multiline exclusive agencies, relative to other agency structures.

	Multiple-Line Exclusive Agent	*Agency-Building Managerial*	*Agency-Building General Agency*
Actual four-year retention	50%	20%	18%
Recruits as a percent of base force	11%	26%	27%
Percent change in size of base force	3%	–3%	–5%

As the financial services industry continues to undergo a historic global restructuring, field leaders will need to keep pace not only with a changing industry, but also with their own subordinates, who will bring a new depth of education and breadth of capability to their careers.

Financial services sector changes are affecting different geographic areas, industry niches and companies at different rates. IAF's interviews have documented a broad range in field leaders' experiences with the changes. Field leaders encompass the range from traditional sales managers to certified financial planners with full NASD brokerage authority. Continuing professional education will be vital to keeping pace with these developments and remaining competitive.

As key trends in the insurance-based sector continue to move the profession toward deeper consultation with consumers, advisors are likely to become more professional, more entrepreneurial, more strategic in their approach and more adept at listening to and empathizing with their clients. It will fall to field managers not only to facilitate this process, but to lead by example. Moreover, they will need to coach associates on communication styles, particularly their approaches to ethnic markets.

The Next Phase of Convergence Will Drive Distribution Trends

The next phase of financial services industry convergence will bring continued change to the insurance-based sector and its distribution channels. The industry has seen a rush to respond to the internet, deregulation and accompanying uncertainty. However, longer-term trends have begun to emerge in what might be called a "chessboard environment." Each major development will alter the strategic landscape, driving competitors to implement still more changes. The process is likely to continue for some time.

Convergence Becomes a Longer-Term Realignment Process

Convergence will continue to be the single biggest trend driving changes in the insurance and financial services industries. The passage of the Gramm-Leach-Bliley Act in 1999, which opened up competition among banks, securities companies and insurers, has been a strong driver of consolidation activity in the United States. Initial cross-sector ventures involving insurance were put into motion in America even before the legislation was finalized.[24] But the trend toward convergence is not the result of just deregulation. Under the pressures of globalization and industry maturity, many European financial sectors, long deregulated in this way, are undergoing a similar process.[25] Financial sector convergence is global.

Convergence

- Convergence will continue to be the biggest driver of industry shifts
- While the initial "gold rush" stage of convergence was extremely fast, the trend will play itself out for longer than is sometimes assumed
- Convergence is not just the result of deregulation in the United States — the phenomenon is global

While convergence has been a key industry factor for a while, there is evidence that deeper institutional effects are still developing and will continue to be felt for some time. Over the past decade, the simultaneous effects of financial globalization, deregulation and the nascent internet caused substantial uncertainty for the future of insurance. Many companies moved quickly and aggressively to counter each of these forces.[26] Today, while none of these elements is a completely known quantity, all of them are becoming better understood. There has been an initial rush in capacity building, but in the future, industry players are increasingly likely to focus on building longer-term strategic niches for themselves.

Historically, many industry watchers forecasted that the impacts of convergence in the United States would take hold rapidly. However, full adaptation will require fundamental changes in the institutional infrastructure across the entire financial services industry. Further, the strategic landscape will be changed with each successive move, not unlike an extended chess game. Comparatively, it is estimated that, after its introduction, bancassurance took more than two-and-a-half decades to fully establish itself in the U.K. market.[27] Convergence is not a process that will play itself out quickly.

Industries, like products, tend to go through a life cycle of development from growth through maturity to commoditization. Several mass-market financial services are beginning to reach maturity and the commoditization stage. In concert with this is an accompanying movement toward efficiency and consolidation. Increasingly, boundaries between financial products will fall, once genuinely effective combinations are developed. The industry is entering a period that is bound to be both less speculative and more pragmatic than it has been. Longer-term strategic convergences may be more clearly seen through the lens of this process, rather than deregulation.[28]

Within this context, relatively strong industry merger and acquisition (M&A) activity is likely to continue as a side effect of strategic positioning. Financial organizations seeking to cross traditional boundaries must choose between growing new capacities in-house and acquiring the infrastructure and expertise through acquisitions or strategic alliances. In insurance, the merger of CitiCorp and Travelers Insurance, forming CitiGroup, was the most prominent example of this type of partnership. However, as the ultimate failure of this merger makes clear, no definitively winning model of M&A activity has yet emerged. As more effective synergies are designed, they will be quickly copied and, on the whole, there are likely to be more mergers and acquisitions moving forward than there have been in the past. Successful partnerships will have a powerful impact on the distribution landscape.

Mergers will continue to define convergence in the financial services industry. In 2004, the last year for which information is available, there were roughly 250 agency mergers and acquisitions in the United States. While mergers and acquisitions may have slowed somewhat since this peak period, they remain robust. Indeed, several industry analysts have predicted that M&A activity is likely to increase yet again over the near term.

Field leaders are key to the integration stage of both intercompany and intracompany agency mergers. After the strategic basis of agency mergers has been worked out at an executive level, it often falls to field managers to undertake the actual integration of policies, systems, procedures and cultures. It has been estimated that the majority of mergers fail not at the strategic level, but at the level of day-to-day integration processes. This is precisely the organizational level where field leaders are likely to be the most active. In a real sense, the work of field managers often represents the difference between success and failure in a merger situation.

The most prominent strategic repositioning in insurance distribution so far is the move into annuities. Because they offer a complementary alternative to the model of traditional life insurance, these securities have been a natural entry point for insurers into the broader arena of financial services. It is estimated that the total sales of variable annuities in 2005 was $133 billion, up nearly 80 percent over the previous decade, and the figure is still growing.[29] With margins on annuities greater than on life insurance, insurers and agencies will continue to push into this field. Over the longer term, this move will create incentives for still more diversifications. Once in place, these changes will drive further change.

Bancassurance Distribution

No single strategically dominant model of bancassurance distribution has emerged in the United States. In many ways, banks have proved to be a disappointing distribution channel for insurance. The merger of Travelers Insurance and CitiCorp into CitiGroup was supposed by some to herald the advent of bancassurance on a large scale.[30] The ultimate disappointment and dissolution of this alliance was taken as an indicator of a failure in the bancassurance model. In fact, the long-term strategic prospects for bancassurance lie somewhere between these two extremes. Over the long term, bancassurance is likely to emerge as a competitor for mid-market insurance sales. Over the shorter term, bancassurance finds itself in a vulnerable position.

Personal bancassurance will continue to take several forms. Not surprisingly, credit insurance connected with loans is the personal insurance line most frequently handled through banks.[31] Bancassurance channels also have relatively high penetration in term life and annuity insurance.[32] This concentration in relatively simple, low-margin and nearly commoditized products puts bancassurance in direct competition with emerging internet channel capabilities. Over the intermediate term, this will hold back full development of traditional bank-employee-led bancassurance channels.

Bancassurance Trends

- Until a way can be found to simply and effectively cross-market insurance products, bancassurance will occupy a vulnerable position
- There is no standard model for bancassurance in America
- Bancassurance is likely to become a priority of banks in the event of a credit crunch

In general, however, the largest share of bancassurance activities is integrated into investment services sold through financial consultants. A 2004 study sponsored by LIMRA found that 82 percent of U.S. banks distribute life insurance products through on-staff financial consultants.[33] Interestingly, this study also found that while on-staff senior registered insurance advisors make the greatest contribution in insurance revenues, their high commission requirements diminish their attractiveness and limit penetration.[34] As a result, life-design, proposal-oriented products are not a conspicuous strength of bancassurance.

Relatively free-flowing credit has been a disincentive to bank expansion into insurance activity. On the whole, it has been as profitable to continue to push loans as it would be to expand more fully into the insurance industry. This could change. In the event of a substantial credit crunch, banks could turn to insurance as a steady cash flow opportunity. For this reason, a substantial credit crunch could represent a tipping point for bancassurance development in this country.

Currently, there are attempts in the works to break up relatively complex life-design, proposal-oriented products in such a way that they can be more easily sold by bank employees.[35] To date, a successful model has yet to be implemented. Absent such a model, bancassurance activity is likely to remain an underdeveloped distribution channel. If however, an effective and easily implemented bancassurance model is developed, it can be expected to spread relatively quickly.

Distribution Technologies

Ten years ago, the capabilities of the emerging internet were expected to lead to the death of middlemen.

Agency models such as those used in the insurance industry were supposed to topple as customers became their own financial advisors.[36] Some agency models — travel agencies, for example — have been severely impacted. But the internet has had a mixed impact on the insurance industry. In recent years, industry spending on internet capabilities has increased substantially. While some insurance lines are likely to heavily consolidate around internet- and company-led distribution, customers will still demand substantial face-to-face interaction for others.

A corollary of internet applications is the development of back-office technologies. As the process of risk management becomes more complex,[37] insurance companies will be pressured to streamline internally. Increasingly, sophisticated programs will be used to better coordinate cross-channel sales activity and to increase overall productivity,[38] improving company-led channels such as phone banks. Also, in this environment, financial advisors will increasingly find themselves one part of larger multichannel strategies as companies increasingly target individuals through several media at once in a coordinated way.[39]

Fundamentally, this represents an emerging split between buyer-driven and seller-driven product lines.[40] Comprehensive life insurance planning is perhaps the best example of a buyer-driven insurance product. Relatively complex issues and differences in individual needs from one person to the next mean a continued demand for the services of life insurance advisors. Paradoxically, the increase in the public's financial sophistication adds to this demand. Less content with one-size-fits-all approaches, these customers demand that financial products be tailored to their individual situation. Even with improvements in internet interface and business models, the demand for advisors will continue.

The internet- and technology-driven direct-company channels will industrialize and commoditize buyer-driven insurance sales. Simple products and relatively inflexible demand lead to commoditization. Geico's approach to car insurance is perhaps the best example.

Distribution Technologies Trends

- Advisors will continue to be in demand
- Advisors will be able to target customers through several channels simultaneously
- Changes will be both internal and customer-facing
- Technology will differentiate between buyer-driven and seller-driven activity, "industrializing" buyer-driven lines
- Technology will be a key requirement for financial advisors to generate their own business

Since Berkshire Hathaway acquired the company, it has focused on mass marketing and the continued technological development of its distribution chain. The firm has now achieved such market dominance that it is considered by some to be the biggest threat to the rest of the automotive insurance industry.[41]

The ease with which the internet and back-office channels handle complex transactions will increase with time. With this, more commoditized product lines, including other property insurance lines, can be expected to continue to expand. Finally, and importantly, while company-led distribution has not replaced advisors, the internet has become a key part of the purchasing process.[42] Increasingly, customers are using the internet to find an insurance advisor. In this environment, it is important that agencies remain technologically up-to-date. Not only agency, but individual success, will increasingly rely on establishing a powerful and distinct Web presence.

The end result of these trends has been described as "pay as you live insurance."[43] Supporters of this model anticipate that in the future, technology will allow for extremely fine risk divisions, essentially transforming many types of insurance into utilities. Already, for example, a few companies offer "pay as you drive" car insurance.[44] It is possible that as insurance products become more responsive, the industry will home in on very specific risk patterns from one individual to the next and will be able to account for these differences with unit pricing. If proponents of this approach are successful, buyer-driven insurance products in 2020 will resemble utilities.

Other Significant Trends

Ethics

In the last several years, a general trend toward strengthening corporate ethics has emerged both in society at large and within companies. Because of increasing business complexity and political anxieties, this trend will continue. The finance sector will be impacted far more than most because recent scandals involving the insurance industry have put it in the spotlight. New business models have lagged regulatory adjustments by the better part of a decade. As convergence continues to develop synergistic business and sales models, these models can be expected to come under ethical scrutiny, forcing field leaders to intensify their oversight activities.

The aging Boomers can be expected to accelerate this trend. These consumers are likely to be far less accommodating than previous generations if they come to feel that a particular company or sales practice is responsible for impinging on their well-being. Already, there is interest forming around the ways that financial advisors currently sell annuities and the recent spike in catastrophic insurance rates in some areas of the country. As a disproportionately large and politically active demographic, Boomers can be expected to force insurers either to adopt strong consumer-friendly internal oversight standards or to face future legislative restraints.

▸ Industry Forces: Implications for Field Leaders ◂	
Convergence will continue to be the biggest driver of industry shifts.	Bancassurance is likely to become a priority of banks in the event of a credit crunch.
There is no standard model for bancassurance in the United States.	Technology will allow firms to target customers through several channels simultaneously.
Convergence is global.	Changes will be both internal and customer-facing.
Technology will differentiate buyer-driven and seller-driven activity, industrializing buyer-driven lines.	Advisors will not be displaced by new distribution technology trends.
While the initial stage of convergence was extremely fast, the trend will play itself out for longer than is sometimes assumed.	Until a way can be found to simply and effectively cross-market insurance products, bancassurance will occupy a vulnerable position.
More stringent ethical standards could require field leaders to enforce more complex ethics rules.	Field leaders will increasingly need to manage advisors with skill sets different from their own.
Field leaders will manage a more professional workforce with more and different certifications. They will need to have these certifications themselves and help their advisor teams qualify for the certifications.	Advisors will use technological advances to generate their own business.

Monitoring Technology Advances

New Technologies for Field Management

A number of new technologies will arise over the next 15 years that will improve field management. For example, Geographic Information System (GIS) technology will enable field managers to access and correlate vast amounts of data to geographic locations. These systems, combined with advanced data-mining techniques, will create real-time awareness of new customers, staff and entire communities. Using this information, insurance companies and public policy makers can identify simple changes in the physical environment that can reduce risk.

A number of new technologies are on the horizon that will impact field management. Many of these technologies already exist, but will be significantly improved by what IAF calls *knowledge technologies.* Knowledge technologies are embedded in software to help provide context to information. By providing context, these technologies can help field managers easily access data and transform mere information into useable knowledge. An example of this is the transformation under way in GIS technology. GIS is improving rapidly in usability and providing context to vast amounts of data that is becoming available over the Web through advanced data-mining techniques. GIS can display data in the context of geography, making it a powerful tool for turning information into knowledge that will be useful for financial services companies, public policy makers and field managers.

GIS is already having an impact in the property insurance and reinsurance industries. They are using GIS to create their own maps linking geographic information and natural disaster frequency to individual addresses, which allows underwriters to be much more sophisticated in their policy pricing. It is also being used by financial companies and companies with large mobile sales forces. They are combining information on potential customers from data-mining firms to locate the best areas to open up new offices and allocate their sales forces.

By 2010, the breadth and depth of data available to GIS networks will improve. The largest change will be online with the development of the Semantic Web. The Semantic Web is the name for a new internet architecture built from computer languages that facilitate automated research and information gathering by computers. The Semantic Web will greatly increase the ability of computer programs to mine the internet for information. Data-collection methods will also improve so that data will be standardized and sharable across data management systems. These advances will dramatically improve GIS by improving the quality and depth of information presented.

Within the next few years, GIS networks will become standard tools for use by marketing, sales and customer service representatives. Richer collections of customer data collected from the Semantic Web will be linked to geographic maps. This information will be available to remote workers through wireless personal computing devices. Mobile salespeople and claims adjusters will be able to pull up customer information in the field. Customer service representatives will be able to link a customer's name or current location to a GIS system to provide better service. This will be useful information for providing directions to branch offices, recommending product lines and assisting in transferring accounts after a move.

By 2015, GIS networks will be used to identify and correct areas of poor health in communities. Health monitoring devices will be available in the home and for personal use. These wireless devices will be able to capture a wide range of health indicators and share them with centralized public health databases to create community health records. Linking and aggregating health information to changes in the community will allow public health officials to map community health to changes in the environment. For example, this information could link lower rates of obesity, high blood pressure and depression to the opening of a new park with hiking trails.[45] Health and life insurers will be able to use this information for underwriting and to adjust their rates based on individual community characteristics.

Also by 2015, community health records will include sophisticated measurements of toxic exposure. Environmental monitoring devices based on inexpensive DNA chips will substantially improve our understanding of the effects of chemical exposure to health.[46] Nanotechnology will also decrease the cost of wireless water and air monitors. These monitors will be cheap enough to place throughout a community and will be linked through citywide wireless networks. Both of these sources of information will be combined to develop GIS maps linking long-term community health to changes in toxic exposure. Both health and life insurance companies will be able to use this information to identify and quantify environmental risks to health.

Over the next 10 years, there is the possibility that consumers will rebel against the collection of personal data. The biggest privacy rights challenge will be centered on the digitization and collection of health information. Existing privacy laws help protect the unauthorized sharing of patient health information and will need to be reexamined as new monitoring technologies and health information systems enter the market.

It is likely that insurance companies will be able to access some or all of this information, provided they are able to collect waivers from customers. However, it is quite possible that there will be a backlash against the collection and use of personal data. In this scenario, the public will demand stringent privacy protection laws. While this could protect consumers against potential misuse of their personal data, it would also severely limit the ability of the insurance industry to pool risk. We are likely to see a consumer backlash against the use of personal information if two events occur: a sharp rise in identify theft and health insurance discrimination based on genetic profiles.

Field managers will likely use GIS systems and other emerging technologies in their day-to-day operations, including opening up new branches, communicating with independent advisors and monitoring field staff, as well as finding and maintaining connections with clients and local communities.

Other Significant Trends

Second Life – Second Office

By 2016, strategies for customer communication in virtual games will be just as important as having an internet strategy is today. Video games are now a multibillion dollar industry that rivals the movie business in scale and sales. A few of these games have developed sophisticated online communities, complete with functioning economies where real businesses compete for consumer dollars. One of the largest and most sophisticated of these online communities is Second Life, which is owned and operated by Linden Lab. As of 2006, Second Life has over 1 million members[47] and is estimated to have a GDP of $64 million.[48]

The importance of Second Life as a center for business is likely to increase dramatically as the technology becomes more lifelike and network effects increase the number of participants. Already, major corporations are conducting business meetings, networking and offering products and services on Second Life. For example, Toyota and other car companies are offering virtual versions of their real cars to customers.[49] The American Cancer Society is building a virtual center in Second Life to provide cancer information, peer support groups and a center for planning virtual events. (ACS raised more than $40,000 for cancer research during their most recent virtual Relay for Life.[50]) Some companies, such as IBM, are using Second Life to conduct training, find clients, host conferences and conduct recruiting events.[51] New iterations of Second Life will include better technology for businesses to connect their operations in the virtual world with other company Websites.

Low-Cost Communication

In 10 years, new technologies will allow rapid communication across the world at no or very low cost. The first major change in communication technology will be advanced video-over-internet communication. Already a number of companies offer low-cost or free voice calls over the internet. A number of companies also offer inexpensive video service.[52] Currently the technology is making only slow inroads into business. Sound quality can be choppy because of slower processing speeds on older machines and too many callers during peak periods for existing servers to handle. However, faster computers running improved operating systems, such as Microsoft's Vista, will dramatically improve the quality of both voice and video calling. Within the next 10 years, the costs of communication, including international communication, using these technologies will be next to nothing. This will open the door to even more interconnections among global businesses.

Real World Merges With the Virtual

By 2016, the digital world will be integrated with the real world using city-wide wireless grids and internet-enabled devices. Information technology companies are currently developing a new wireless technology called WiMax, which has the potential to completely change the digital landscape. WiMax offers coverage areas that extend dozens of miles at speeds that are 20 to 30 times faster than current broadband offered through DSL lines or cable internet.[53] If the WiMax rollout is successful, it will dramatically reduce the costs of internet service by forcing competition between new service providers and the established providers. It will also create a new way for consumers to learn about new services. WiMax-capable products are likely to ship in volume in late 2008 and 2009.[54]

The landscape of both work and advertising is likely to change in response to these new devices. Workers will be continuously connected both to the internet and office while out in the field. This will improve their ability to work effectively outside of the normal confines of the office. Companies will be able to offer digital advertising on handheld devices and even contact potential customers with special offers on their handheld devices as they walk by the store. Combined with better customer information from advanced data mining, these systems will allow firms to offer targeted sales to customers based on previous history. Insurance companies, depending on access to consumer data, will be able to offer similar digital ads. They could even offer an insurance quote on the spot as a potential client is walking by the office.

Technology Advances: Implications for Field Leaders	
Field and home office leaders will need to monitor advances in GIS and other technologies to judge their impact on operations.	Field leaders will have access to a wide range of new software and hardware tools for managing distant advisors.
As the use of networked technology grows, businesses will have to contend with some of the issues surrounding extensive technology applications, including issues of privacy, security, intellectual property and control.	Future-oriented businesses will spend more dollars on market research, marketing, branding and communications in order to remain competitive. Precise qualitative and quantitative research needs to be conducted regularly.
Virtual worlds such as Second Life will become an important market for selling real-world services and products, including insurance and financial services, to domestic and international clients.	Networking, collaboration, data-mining and knowledge-creation tools will continue to proliferate and evolve and give field leaders tremendous participatory and customized capabilities.
Virtual worlds will become an important arena for recruiting and communicating with both internal and external customers.	Field leaders will need to learn the ethical use of the personal information in GIS systems and other data-gathering and data-mapping technologies.
Over the next 10 years, the number and the quality of technologies for enhancing constituency contacts and relationships, providing informed customer support, identifying resources and knowledge and enhancing meeting facilitation will improve. Some of the most common tools currently available include blogs, listservs, wikis, podcasts, RSS (Really Simple or Rich Site Syndication) feeds, online discussion boards, action alerts and polling platforms.	Firms will have access to new ways of reaching potential clients, including virtual advertising in the real world.
	Managers will need guidance on integrating new technology systems.

New Directions in Professional Training and Development

Customizing Education to Company and Individual Learning Goals

Individuals are tying their professional development to their company's goals and their own desire to become leaders in their chosen profession. This is placing a premium on customized and collaborative learner-centered experiences that are proving more effective in linking knowledge to practice.

Companies are taking a systematic approach to developing individuals in support of their goals to make sure professional development has a direct return on their investment.

They are going beyond the classroom experience to build skills through job assignments, mentoring and coaching. They use case method, business simulations, action learning, 360-degree assessment and feedback, executive coaching and key assignments.[55] Professionals need to apply their knowledge and skills in "complex, problematic situations," and most approaches to skills training are very weak on how to apply this learning in practice.[56]

Many organizations now diffuse leadership throughout the ranks and empower frontline people to make decisions consistent with their vision. Individuals are finding functional knowledge is not sufficient and they want to learn more about strategic leadership and organizational change. For this reason, university-based programs and corporate universities are emphasizing strategy, leadership and change. These programs develop the leader as a "strategic thinker, driver of change, person with a teachable point of view, coach, creator of culture, and driver for results."[57]

Corporations like to train teams or cohorts together, using action-learning projects to solve real-life problems with immediate relevance to the company. This allows companies to integrate training with their goals and cascade learning experiences across the organization. The aim is for "all leaders in an organization, at all levels and in all divisions, to participate in a common process over time, sustaining momentum for change and learning efforts." Companies are using a diversity of instructors, including outside consultants and trainers, university faculty, company executives, managers with specialized knowledge and corporate trainers from within the organization. The shift, however, is toward increasing use of company executives in training, perhaps reflecting the new emphases on leadership for change and on broad, organizational management issues. As companies have placed a higher priority on their learning objectives, they have shifted the "locus of education from universities and business schools to companies and business consortia."[58]

Adult learners share this corporate desire to align professional development with their real-world needs. They are very pragmatic and prefer learning that is just-in-time and readily applicable to their lives. They want to actively shape the learning experience and like collaborating with others to create knowledge and develop best practices.

People are organizing collaborative learning communities. In these communities, individuals join together to accelerate new knowledge through the dynamic use of social networking and collaboration technologies. They may use communities of practice, list servers and chats, Wikipedia and interactive blogs and blended learning (virtual combined with face-to-face experiences).[59] "Profound knowledge, innovative practice and new thinking are often embedded within a network." Field leaders need to create the "generative space for this knowledge to flow freely among network nodes."[60]

Knowledge can be disaggregated and repackaged to meet advisors' specific needs and desires. Information can similarly be micro-customized for individuals by chunking information that has traditionally been published in books, and the learners can choose only the parts they want or need. The pieces can be assembled manually by cutting and pasting into individually customized documents, prepackaged into a wider variety of options, or the customization task can be automated to allow learners to access customized information online."[61]

Other Significant Trends

Lifelong Learning Equips People for Multiple Careers

In this fast-changing world, many people will change jobs and even careers many times. If they are not changing jobs, then the jobs they have are changing so dramatically in their requirements that continuous learning is essential. People have to combine this learning with their work and need flexible and accessible ways to acquire new knowledge and skills. They will rarely be able to stop working completely to go back to school. This trend has spurred for-profit distance learning and university and association certificate programs.

Digital Learning Technologies Accelerate Learning

New digital learning technologies make it possible to accelerate learning for people of all ages. The Web offers a hyperlinked environment that lets learners seamlessly access vast amounts of knowledge. This is a media-rich environment, where people can read text, listen to audio and watch video. Gaming and simulations, the so-called serious games, make it possible to acquire highly technical skills quickly, and they help facilitate team learning. Many organizations, such as IBM, are using Second Life as a virtual environment for recruiting and training employees.

These technologies particularly appeal to younger generations who have always used them for fun and learning. As they come to represent a larger share of the workforce, they will either expect these technologies to be available, or they may create communities where they can work and learn in their preferred way. These digital natives can be the mentors for older members who need to acquire technology competence, and who may, in turn, mentor younger members in the art of the profession.

▸ Professional Training and Development: Implications for Field Leaders ◂		
Professional development and training will go beyond the classroom to job assignments, mentoring and coaching.		Development and training should be delivered in such a way that advisors can use their new skills and knowledge immediately.
Field leaders will need to provide just-in-time and readily applicable training and development methods.		Adult learners increasingly want to align professional development with their real-world needs and to actively shape the learning experience.
People will be changing jobs more often during their lives and will need flexible ways to access training.		Digital technologies will play an increasing role in development and training, particularly as Gen Xers and Millennials become a larger proportion of the workforce.

Invent Your Future

The role of the field leader has never been as complex and demanding as it is today. And as this report demonstrates, the pace of change will only increase in the coming years. Yet by anticipating many of the changes that will impact your world, you can shift your mindset from *reacting to change* to *inventing your future.*

No one can hold back the rapid onslaught of change and innovation. We can, however, ride the wave with a clear view of how we will use its opportunities to improve our business and our life. That's what visionary leadership is all about.

The GAMA Foundation hopes that you will use the information in this report to work with your team to create your own visionary goals and plans. We wish you an exciting and inspired future.

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